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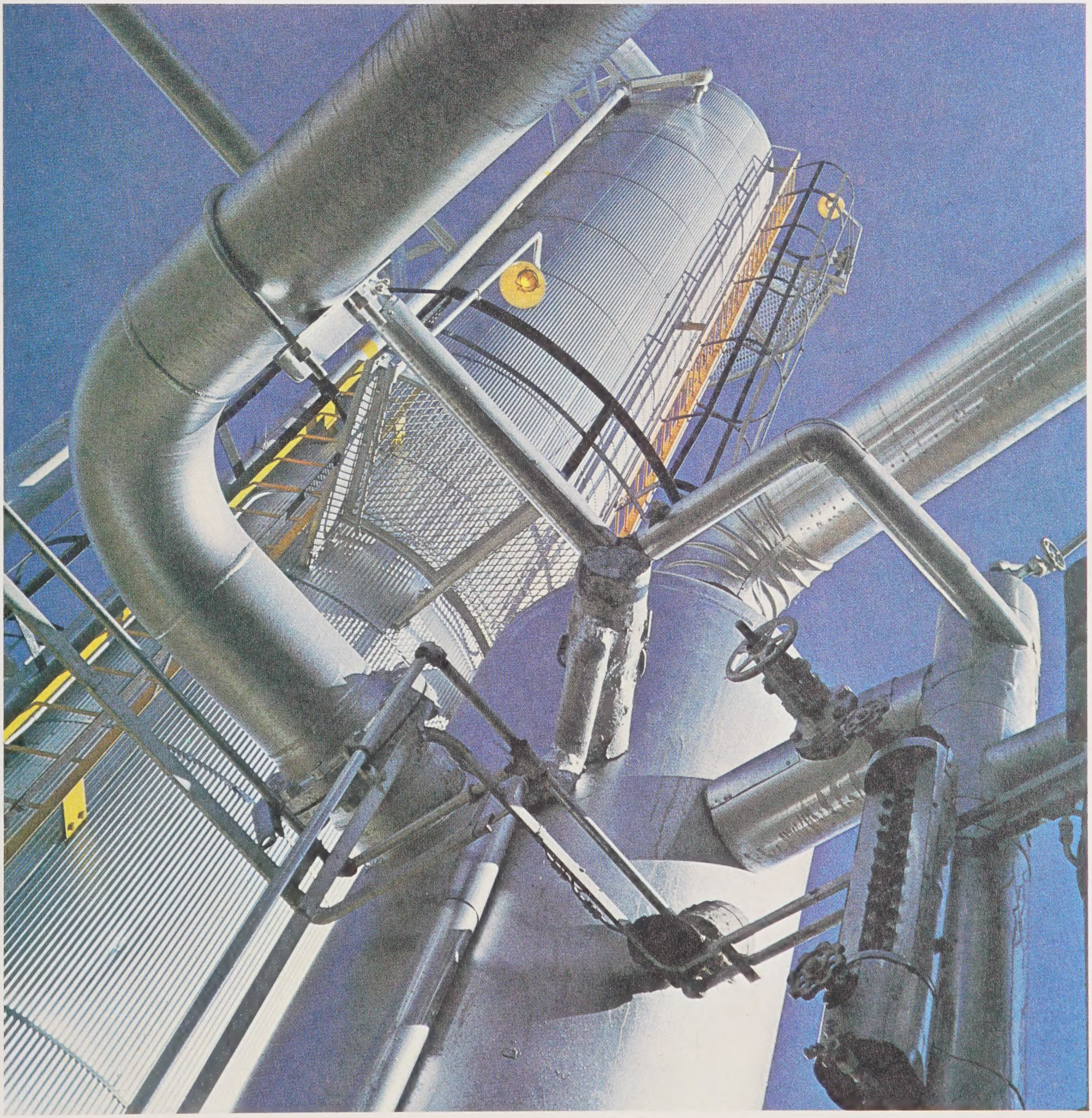
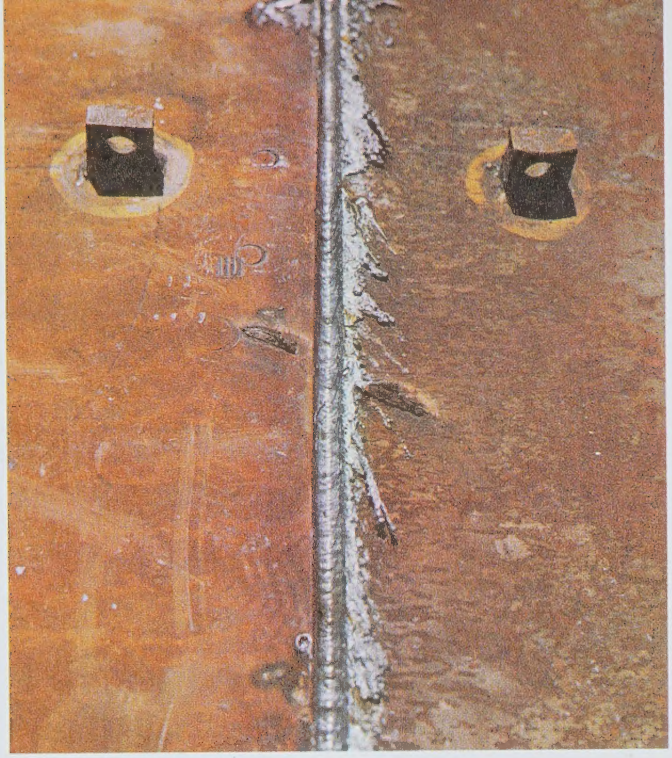
Hudson's Bay Oil and Gas Company Limited

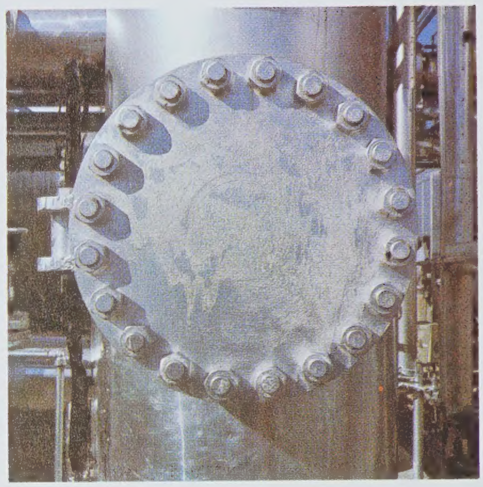
ANNUAL REPORT 1967



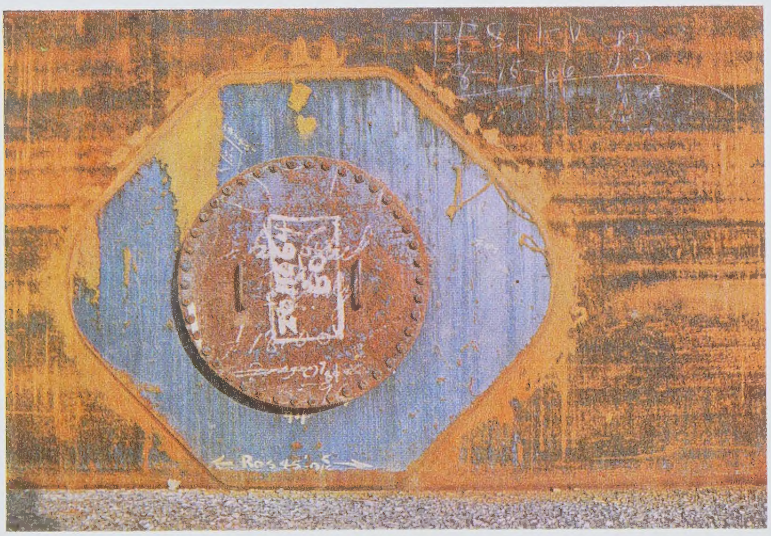


A WELD JOINING STEEL PLATES.

Artistry in Oil

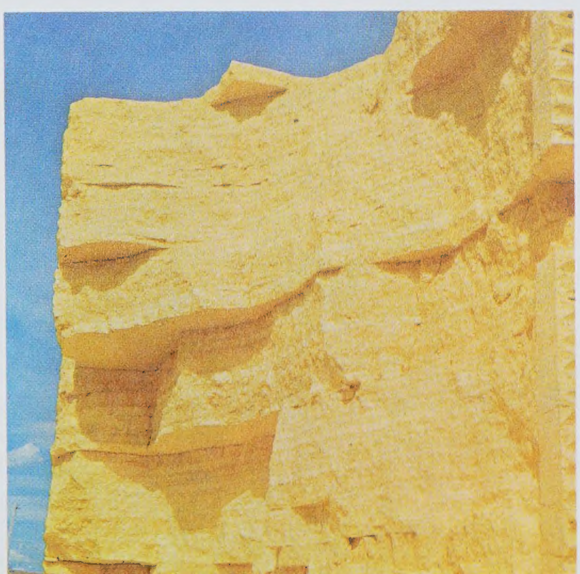


BLIND FLANGE
FOR INSPECTIO
AND CLEANING
OF A GAS PLAN
VESSEL.



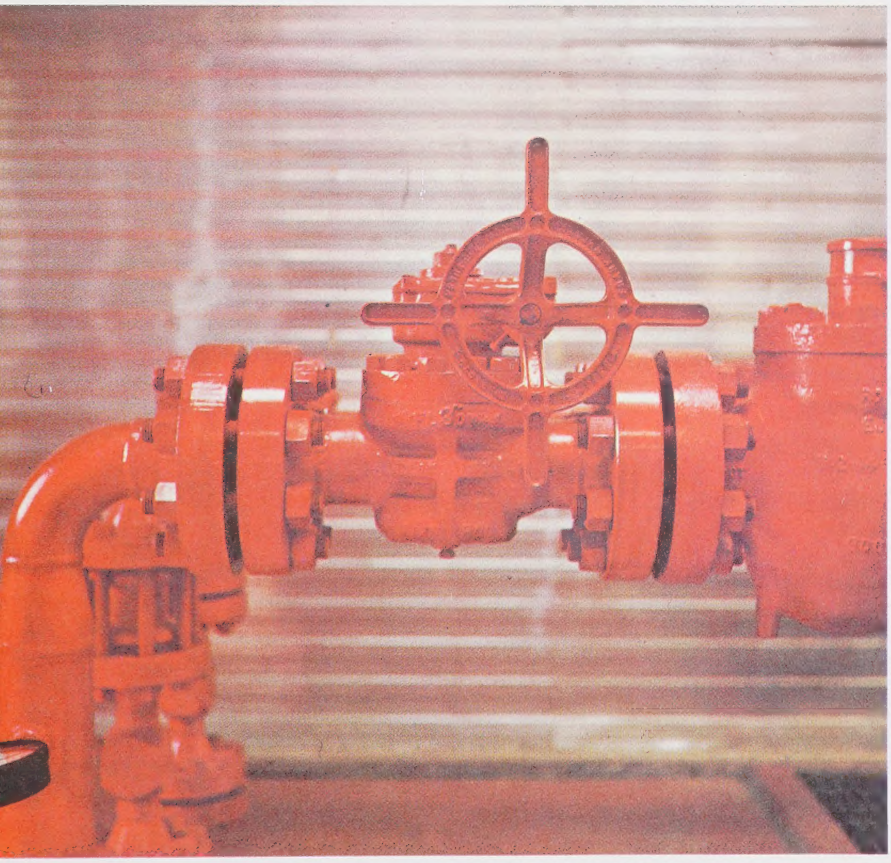
REMOVABLE COVERS ALLOWING ACCESS TO A CRUDE OIL STORAGE TANK.

INTERIOR SCAFFOLDING FOR CONSTRUCTION
OF A SPHERICALLY-SHAPED TANK.



SULPHUR SOLIDIFIED
IN THIN LAYERS
ON AN
OUTDOOR STORAGE BLOCK.

Hudson's Bay Oil and Gas Company Limited



FITTINGS AND VALVES IN A WATER INJECTION SYSTEM.

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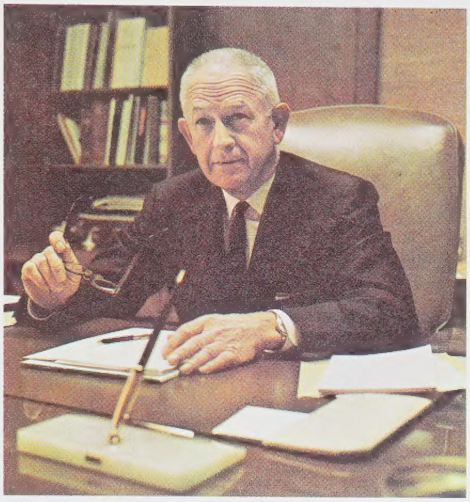
ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at the Head Office of the Company on Tuesday, April 23, 1968 at 11:30 a.m. Notice of the meeting and proxy forms are being mailed with this report.

Financial and Operating Highlights

		1967	1966	Increase (Decrease)
FINANCIAL	Gross Operating Revenues	$61,688,000	$52,482,000	17.5%
	Net Cash Income Generated from Operations			
	Total	$38,277,000	$32,813,000	16.7%
	Per Common Share	$ 2.07	$ 1.79	15.5%
	Net Earnings			
	Total	$22,139,000	$17,371,000	27.4%
	Per Common Share	$ 1.19	$ .95	25.3%
	Dividends Declared			
	Common – Total	$ 9,147,000	$ 7,318,000	25.0%
	Per Share	$ .50	$ .40	25.0%
	Preferred – Total (first payment of quarterly dividend)	$ 375,000	$ –	–
	Per Share	$ .625	$ –	–
	Capital and Operating Expenditures for Finding and Developing Reserves	$36,131,000	$29,503,000	22.5%
OPERATING	Crude Oil and Natural Gas Liquids Production – Net (Barrels per day)	47,294	42,456	11.4%
	Natural Gas Sales – Net (Millions of cubic feet per day)	197	170	16.0%
	Sulphur Sales – Net (Long tons per day)	433	386	12.3%
	Pipe Line Throughput (Barrels per day)	58,812	56,123	4.8%
	Net Acreage (at year end)	19,566,000	25,027,000	(21.8%)
	Proved and Probable Reserves – Net (at year end)			
	Crude Oil and Natural Gas Liquids (Barrels)	354,061,000	277,664,000	27.5%
	Natural Gas (Millions of cubic feet)	3,033,000	2,932,000	3.5%
	Sulphur (Long tons)	6.530,000	5,207,000	25.4%



President's Report

For Hudson's Bay Oil and Gas, 1967 was an outstanding year. Record levels of production and sales produced new highs in revenues, cash generation and net earnings; a successful exploration and development program resulted in large net additions to remaining reserves; the scope of activities was broadened to include the retail marketing of propane; and the Company's equity capital was substantially enlarged through the issue and sale of $30,000,000 of preferred shares.

Net earnings for 1967 were $22,139,000, an increase of 27.4%. After providing for dividends on the new issue of preferred shares for the final quarter of the year, net earnings per common share were $1.19, a gain of 25.3%. Net cash income generated from operations totalled $38,277,000, up 16.7%, and after deducting the preferred dividend amounted to $2.07 per common share, a gain of 15.5%. In view of the higher earnings and cash generation, the 1967 dividend on the common shares was increased by 10 cents to 50 cents per share.

These improved financial results were primarily due to the growth in production and sales volumes tabulated on the opposite page. However, higher sulphur prices and larger revenues from pipe line operations also made significant contributions. Over half of the growth in gross revenues was carried through to net earnings despite larger exploration expenses and additional interest charges on borrowed capital.

The higher level of spending in 1967 for finding and developing reserves was largely attributable to the active program carried out in the Zama Lake area where the Company completed 35.5 net wells, all of which were successful and resulted in 28.5 oil wells and 7.0 gas wells. These favourable results at Zama Lake contributed very significantly to the large net addition to crude oil reserves achieved during the year. Natural gas, natural gas liquids and sulphur reserves also were enlarged primarily through successful extensions to the Kaybob South and Lone Pine Creek gas fields.

The Company's pipe line and product distribution activities were expanded during the year. A new trunk line connecting the Company's two existing pipe line systems in Alberta was brought into operation in January of 1967. Participation in the marketing of butane and propane, which was initiated at the wholesale level in 1966, was extended during 1967 to include the retail marketing of propane by the acquisition of a group of three established companies operating in central Alberta.

To provide a sound financial base for continued growth and expansion, approval was obtained from the shareholders to enlarge the Company's equity capital. In October, 600,000 5% Cumulative Redeemable Convertible Preferred Shares Series A with a total par value of $30,000,000 were issued and sold in Canada. The proceeds were added to the Company's working capital and resulted in a strong liquid position at year end.

Excellent results were also achieved by the Western Canadian petroleum industry as a whole in 1967. Production of crude oil and natural gas liquids rose by 9.4% to 1,108,000 barrels per day with approximately one-quarter of the gain attributable to additional demands arising from interruption of normal supply patterns during the Middle East crisis. Sales of natural gas increased by 14.2% to 3.2 billion cubic feet per day due to larger demands from both domestic and export markets. Sulphur sales averaged 5,900 long tons per day, a gain of 19.2%, with world consumption continuing in excess of productive capacity.

The sustained high level of economic activity currently in prospect should result in a continuation of this strong rate of growth during 1968. Industry production of crude oil and natural gas liquids is expected to increase by 4% to 6% and a gain of about 12% is forecast for natural gas sales. With a number of new plants scheduled to come into operation during the year, sulphur sales should be about 30% higher. Expansion projected for 1968 in the major pipe line systems for both crude oil and natural gas will provide access to additional markets and should result in the maintenance of a good rate of growth in subsequent years.

The Company's plans for 1968 will entail an increase of about 40% in spending on exploration and development activities, with the major factor being greatly enlarged outlays on gas plant construction. Four new gas processing plants are currently at various stages of design and construction with one scheduled to come into operation about mid-year and the others late in 1968 or early in 1969. On completion, these new plants will add very materially to the Company's production of natural gas, natural gas liquids and sulphur. Exploration activity will be maintained at a high level in 1968. A large share of this exploratory effort will be directed toward evaluation of the Company's extensive land holdings in northwestern Alberta which is currently a favourable area for finding the large reserve pools that are of increasing importance under the revised prorationing system in Alberta. The final transitional steps toward basing allowable crude oil production essentially on reserves will be made in May of 1968 and 1969 and will have the effect of reducing production rates in a large number of fields with the offsetting gains being shared among fields with larger reserves. The Company currently obtains a significant share of its crude oil production from pools that will experience reduced allowables from these changes but, through its existing holdings in the more prolific fields, it will also participate in the higher production rates from such fields. To maximize this participation, the Company is intensifying its efforts to find the type of reserve accumulations that will benefit most from the prorationing revisions.

The results achieved in 1967 attest to the success with which employees throughout the Company have applied their talents effectively and creatively. The Directors wish to record their appreciation of this important contribution to the continued progress and growth of the Company.

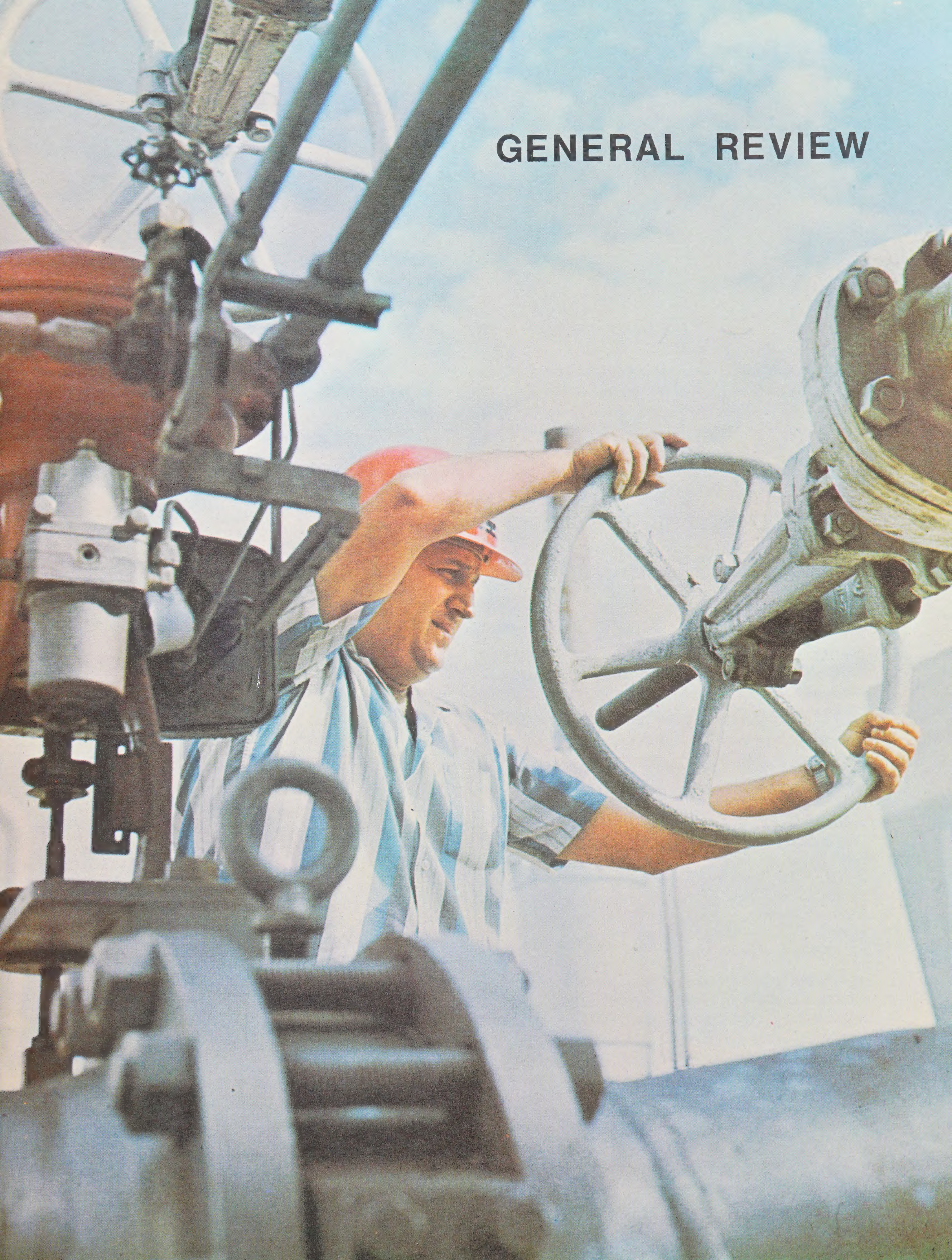
Submitted on behalf of the Board of Directors:

L. J. Richards

Calgary, Alberta
March 11, 1968

President

GENERAL REVIEW



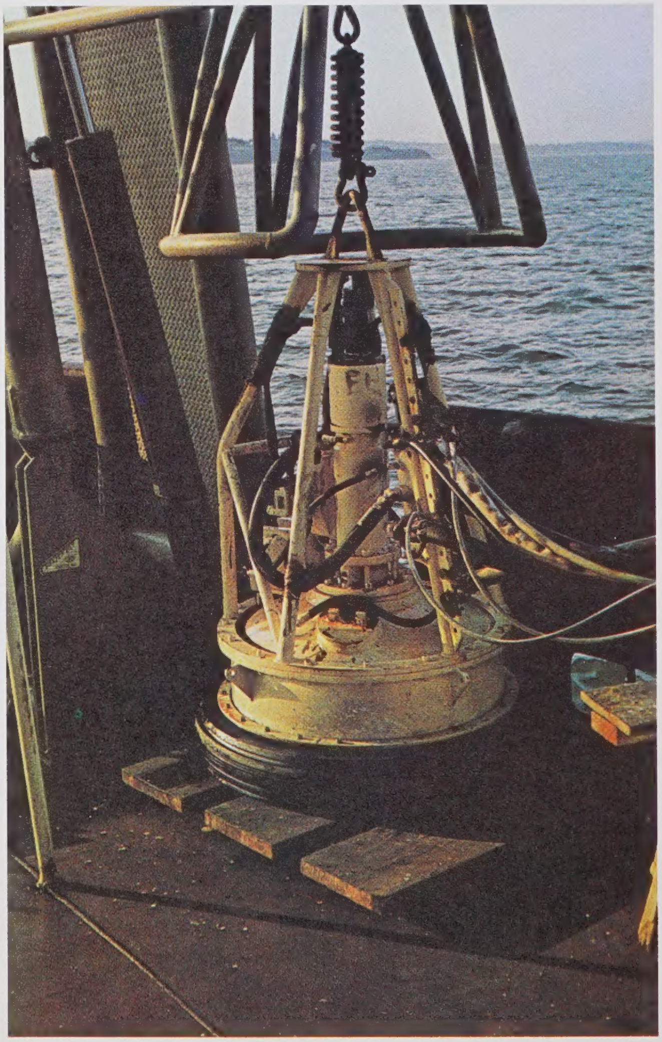
General – In its 1967 exploration program the Company placed particular emphasis on exploratory drilling and geophysical activity, both of which reached record levels. Expenditures on exploration, including both capital and expense outlays, totalled $16,982,000, an increase of $1,158,000 over the prior year. Exploratory drilling expenditures, at $8,053,-000, were up $2,180,000 and the $3,926,000 spent for geophysical surveys represented an increase of $1,719,000. Outlays for acquisition of acreage were substantially reduced and totalled only $1,493,000 as compared with $3,775,000 in 1966.

Exploratory efforts in 1967, as in prior years, were largely concentrated in the prospective areas of Alberta, Saskatchewan and northeastern British Columbia. However, the Company also conducted a sizeable marine geophysical survey offshore from the coasts of Prince Edward Island and Nova Scotia on its extensive holdings in the Gulf of St. Lawrence.

Discoveries and Extensions – During 1967 the Company participated in the discovery of several new fields and in the extension of a number of existing fields. The highlight of the year's exploration activity was the particularly favourable success ratio achieved in the large drilling program in the Zama Lake area of northwestern Alberta. The results in this area and other significant discoveries and extensions are discussed in the following paragraphs and are identified on the map appearing on pages 18 and 19.

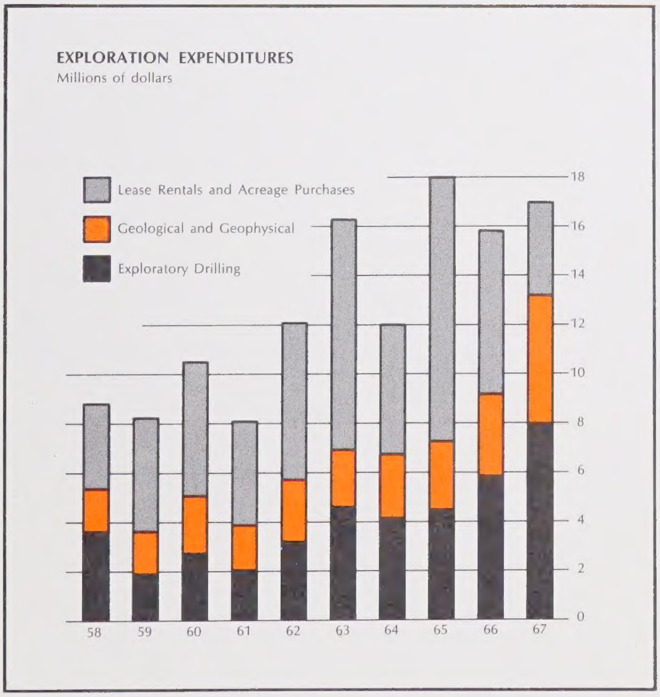
At Zama Lake 20 exploratory tests were drilled during the year on wholly-owned acreage and all were successfully completed in Middle Devonian formations, resulting in 15 oil wells and five gas wells. In addition a majority of the wells completed as oil producers also encountered natural gas in overlying formations. At year end the Company had 28,640 net lease acres and 37,760 net reservation acres in its Zama block. An active drilling program will be continued on this acreage in 1968 and a number of exploratory tests also will be drilled on large blocks of wholly-owned acreage located west and northwest of this Zama block.

DURING MARINE GEOPHYSICAL SURVEYS THIS VIBRATOR IS LOWERED INTO THE WATER TO GENERATE SEISMIC WAVES.



SIGNIFICANT DISCOVERIES AND EXTENSIONS IN 1967

Name of Field or Area	Discoveries and Extensions: Number	Discoveries and Extensions: Nature	Producing Formation	Approx. Depth
Alberta				
Zama Lake	20	Oil & Gas	Devonian	5,000′
Brazeau River	1	Gas	Mississippian	10,200′
Northwest Pine	1	Gas	Devonian	11,000′
Saskatchewan				
Ceylon	1	Oil	Mississippian	6,400′
South Hummingbird	1	Oil	Mississippian	6,300′
British Columbia				
Crush	1	Oil	Triassic	3,900′



At Ceylon in south central Saskatchewan, the Company participated in a discovery well which encountered oil in a Mississippian formation. Two extension wells had been successfully completed by year end and additional step-outs will be drilled in 1968 to delineate the extent of this reservoir. The Company owns a 50% interest in the 2,560-acre lease on which the discovery was made and a 100% interest in 5,280 lease acres surrounding this block. In the same general area, at South Hummingbird three miles south of the Hummingbird field, the Company found oil in the Mississippian on a wholly-owned lease of 3,840 acres. Mississippian pools found in this part of the Province in the past have been profitable but of relatively limited areal extent. The Company holds some 350,000 permit acres in this general area.

At Brazeau River in west central Alberta, a successful exploratory well extended by two miles to the southeast the important Mississippian gas field originally discovered by the Company in 1965. A 26,000-acre block of leases is owned outright in addition to other extensive holdings in the area.

At Northwest Pine, also located in west central Alberta, a Devonian natural gas reservoir was successfully extended 1½ miles to the west by an exploratory test completed during the year. This well was located on a 21,000-acre block of leases in which the Company owns a 41⅔% interest.

In the Crush area of northeastern British Columbia the Company participated in an oil discovery in a Triassic sand. The Company has a 25% interest in the 2,800-acre lease on which the discovery was made and has interests equivalent to 1,900 net acres in other lands in the immediate area.

A ROUGHNECK POSITIONS A CABLE DURING DRILLING OPERATIONS.

UNDEVELOPED NET ACREAGE HOLDINGS
December 31, 1967

Location	Crown Permits or Reservations (1)	Leaseholds	Hudson's Bay Company Lands (2)	Fee Lands	Total
Alberta	1,607,000	2,319,000	1,509,000	85,000	5,520,000
Saskatchewan	2,460,000	104,000	2,330,000	102,000	4,996,000
British Columbia	466,000	508,000	6,000	–	980,000
Yukon and N.W.T.	2,293,000	–	–	–	2,293,000
Maritime Provinces	4,583,000	–	–	–	4,583,000
Manitoba	–	–	700,000	89,000	789,000
	11,409,000	2,931,000	4,545,000	276,000	19,161,000

(1) Convertible into leases to the extent of approximately 50%.

(2) Held under an agreement which permits conversion to leases at any time up to December 31, 1999 without payment of any bonus.

Acreage Holdings – During 1967 the Company acquired 690,000 acres of undeveloped lands of which 606,000 acres were purchased at a cost of \$1,316,000 and 84,000 acres were obtained through filing and other acquisitions that did not require bonus payments. Acquisitions included 260,000 net acres purchased for \$195,000 in the Willow Lake area of the Northwest Territories, 49,920 net acres purchased for \$254,000 in the White Sands area of northeast Alberta, and a number of smaller holdings at various locations in the western provinces and the Northwest Territories.

The Company also filed on 850,000 acres of sulphur permits covering lands in the Mikkwa, Panny River and White Sands areas in northern Alberta. These filings overlie existing petroleum and natural gas rights and serve to protect the Company in the event elemental sulphur is encountered while exploring for hydrocarbons. The accompanying table of acreage holdings excludes sulphur permits.

In 1967 the Company entered into an arrangement whereby it assigned a half interest in its holdings in the Maritime Provinces to another company that has joined it in exploring these permits. As a result, the Company's net acreage holdings were reduced by 4,583,000 acres. The Company also surrendered or released its interests in an additional 1,564,000 acres of undeveloped land holdings during 1967. These included 252,000 acres released after geological and geophysical evaluations; 963,000 acres surrendered on conversion of permits and reservations to lease status; and 349,000 acres assigned to other companies for the drilling of wells on Company lands. In addition, 26,000 acres were transferred to the fully or partially developed category.

At December 31, 1967, the Company held 19,161,000 acres of undeveloped lands acquired at a total cost of \$28,808,000, an average of \$1.50 per acre. Rental payments in 1967 totalled \$2,280,000, an average of 12 cents per acre.

During the year the Company participated in the completion of 203 wells in which it had interests equivalent to 117.1 net wells. In terms of net wells this drilling activity was at virtually the same level as in 1966, but the Company's expenditures on drilling were more than 50% higher largely due to the location and depth of the wells drilled. In addition the Company retained a royalty interest in 37 wells completed on its properties during the year and supported with acreage contributions the drilling of eight exploratory wells on lands adjacent to its holdings.

The 94 exploratory completions in which the Company participated in 1967 resulted in 33 discoveries or extensions, including 20 located on wholly-owned Company lands in the Zama Lake area. These exploratory completions included 38 farmout wells in which all or a part of the drilling costs were borne by other companies in exchange for varying interests in the lands on which the wells were drilled. Through these farmouts the Company participated in four discoveries in which it retained interests equivalent to 1.3 net wells. On a net well basis, the geographical distribution of the Company's exploratory completions in 1967 was 40.4 wells in Alberta, 11.5 in Saskatchewan, 5.3 in British Columbia and 4.0 in New Brunswick.

The Company's participation in 109 development well completions in 1967 was equivalent to 55.9 net wells, almost the same number as in the previous year. On a net well basis, the distribution of the 1967 development completions was as follows: Alberta 42.0, Saskatchewan 11.7 and British Columbia 2.2. Of the 30.0 net oil completions included in these figures, 13.5 were at Zama Lake and 5.5 were in the Hummingbird field in Saskatchewan. Net gas well completions totalled 17.1 and were distributed among a number of fields, principally in west central and northern Alberta.

MECHANICALLY POWERED TONGS ARE USED TO TIGHTEN OR LOOSEN PIPE CONNECTIONS WHEN DRILL PIPE IS ADDED TO OR REMOVED FROM THE DRILLING STRING.

WELL COMPLETIONS

	1967		1966	
	Gross	Net	Gross	Net
Exploratory				
Oil	22	19.9	14	9.5
Gas	11	8.0	14	9.0
Dry	61	33.3	75	40.0
Total	94	61.2	103	58.5
Average Depth		5,239′		5,057′
Development				
Oil	51	30.0	60	34.8
Gas	42	17.1	37	9.8
Dry	16	8.8	22	12.1
Total	109	55.9	119	56.7
Average Depth		6,429′		5,575′

DRILLING AT ZAMA LAKE

Crude Oil – In 1967, for the ninth consecutive year, a new record was attained in the volume of crude oil produced. The Company's net crude oil production averaged 40,354 barrels per day, an increase of 4,411 barrels per day or 12.3% over the prior year. The most important factor in this gain was the production obtained from new wells completed during 1967 which averaged 3,681 barrels per day for the year. A major share of this new production was derived from wells in the Zama Lake area, despite the fact that a large number of these wells were not completed until the latter part of the year. The other principal factors that contributed to the increase in 1967 were the additional volumes obtained from a full year's operation of wells completed during 1966, gains from the installation of enhanced recovery projects, and higher allowable production rates in Alberta during the period that Middle East supplies were curtailed. These gains were partially offset by natural decline in production from older wells and by reduced demand for the medium gravity crudes from a number of fields in southwestern Saskatchewan.

The average wellhead price received by the Company for its crude oil in 1967 was $2.362 per barrel, a decrease of 1.7 cents per barrel. This price reduction was largely attributable to the relatively low price received for Zama Lake crude due to high transportation costs from this remote area. However, with increasing volumes, the pipe line tariffs for Zama crude are being reduced with a resulting improvement in the wellhead price.

Enhanced recovery projects, to improve or maintain producing rates and ultimately recover a larger proportion of the oil reserves in place, were installed in four additional pools in 1967. Construction of similar facilities in another two pools was commenced during the year with completion anticipated early in 1968.

Good progress was made during the year in the unitization of Company producing properties with those owned by other companies in the same field. The resulting consolidation of development and production activities under the control of one operator achieves substantial economies in both capital and operating costs. During 1967 the Company participated in the formation of 21 units, thus increasing the total number in which it has an interest to 139 of which 20 are operated by the Company. A further 29 units were in the process of negotiation at year end.

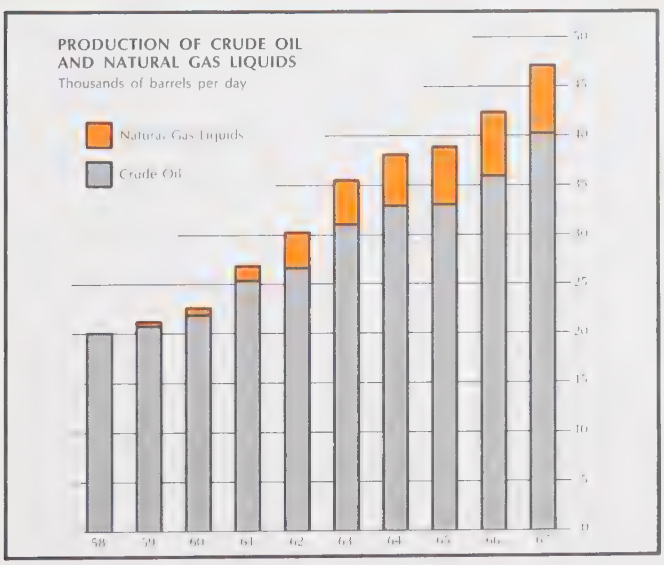
CRUDE OIL PRODUCTION – NET
Daily Average Barrels

	1967		1966	
Alberta				
Pembina	7,182		7,284	
Zama Lake	2,691		–	
Sundre	1,854		1,854	
Virginia Hills	1,770		1,813	
Kaybob South	1,448		1,433	
Sturgeon Lake South	1,419		1,376	
Medicine River	1,297		1,032	
Cessford	999		918	
Innisfail	980		941	
Bonnie Glen	716		541	
West Drumheller	645		550	
Garrington	636		731	
Fenn-Big Valley	626		576	
Other fields	7,123		6,807	
Total		29,386		25,856
British Columbia				
Milligan Creek	3,912		3,821	
Peejay	1,244		956	
Other fields	537		470	
Total		5,693		5,247
Saskatchewan				
Success	1,235		1,475	
Hummingbird	861		37	
Other fields	3,163		3,314	
Total		5,259		4,826
Manitoba		16		14
Total		40,354		35,943

Natural Gas and Associated Products – Continuing expansion of the Company's natural gas operations resulted in a record volume of production and sales of natural gas, natural gas liquids and sulphur. The growing significance of this segment of the Company's operations is demonstrated by the fact that it generated 35.4% of the Company's gross operating revenues in 1967 as compared with 23.2% as recently as five years ago.

NATURAL GAS LIQUIDS PRODUCTION – NET
Daily Average Barrels

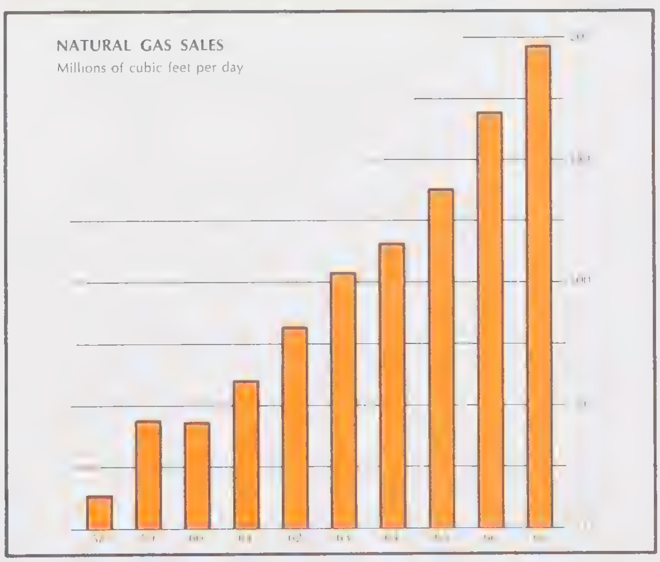
	1967	1966
West Whitecourt	4,120	4,235
Westerose South and Homeglen-Rimbey	588	542
Harmattan-Elkton	508	523
Edson	389	280
Lone Pine Creek	254	–
Other locations	1,081	933
Total	6,940	6,513

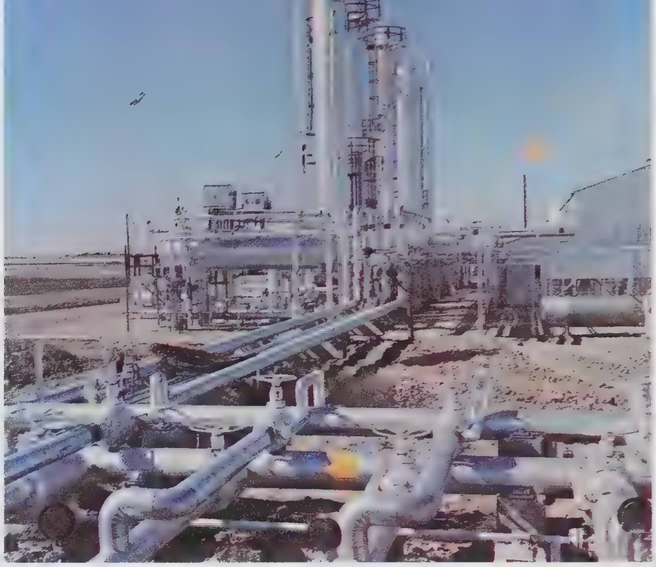


Natural gas sales averaged 196.7 million cubic feet per day for the year, an increase of 27.2 million cubic feet per day or 16.0% over 1966. Contributing to this growth were a scheduled increase in deliveries under the sales contract for Edson gas, approximately eight months' output from a new

NATURAL GAS SALES – NET
Millions of Cubic Feet Per Day

	1967	1966
Cessford	41.1	41.0
Edson	39.4	28.1
West Whitecourt	37.6	37.0
Clarke Lake	10.9	8.0
Pembina	9.7	8.8
Lone Pine Creek	8.3	–
Sylvan Lake	8.0	8.6
Westerose South and Homeglen-Rimbey	6.2	6.1
Provost	3.9	4.4
Gilby	3.7	3.6
Other locations	27.9	23.9
Total	196.7	169.5





INLET PIPING AND PROCESSING TOWERS AT THE LONE PINE CREEK GAS PLANT.

plant at Lone Pine Creek, and additional contract volumes delivered from the Clarke Lake field. The average price realized from 1967 gas sales was 14.6 cents per thousand cubic feet, essentially unchanged from the prior year.

Production of natural gas liquids averaged 6,940 barrels per day, an increase of 427 barrels per day or 6.6% over the prior year. Condensate from the new Lone Pine Creek gas plant and from additional throughput volumes at the Edson plant accounted for most of this gain. Increased production of propane and butane at several Alberta plants was also a contributing factor. These gains were partially offset by a reduction in condensate production from the West Whitecourt plant due primarily to a decline in the average liquid content of the gas processed. The average price received for natural gas liquids was $2.53 per barrel, an increase of approximately four cents per barrel over 1966.

Sulphur sales averaged 433 long tons per day in 1967, a gain of 47 long tons per day or 12.3%. Approximately two-thirds of the increase represented sales from plants in which the Company has an ownership interest in the sulphur extraction facilities and receives its share of the sulphur output in kind. The remaining gain was due to increased production at the West Whitecourt plant which continued to account for a large part – 82.3% in 1967 – of the Company's sulphur sales. At this plant, the hydrogen sulphide gas removed from the raw gas stream is sold to a major sulphur company at a net value per ton of contained sulphur that reflects prevailing sulphur prices. Revenues from West Whitecourt sulphur sales more than doubled in 1967 due to both increased volumes and renegotiation of the pricing base which had the effect of increasing the price received for both 1966 and 1967 sales. From its 1967 sulphur sales at other locations the Company averaged a gross plant price of $44.78 per long ton, practically unchanged from the previous year.

A major expansion of the Company's gas processing facilities was initiated in 1967 involving the design and construction of four large new plants at Kaybob South, Brazeau River, Caroline and Bigstone, and an enlargement of the recently completed Lone Pine Creek plant. Although each of these facilities will be owned jointly with other producers, the Company will be responsible for the design, construction and operation of all but the Bigstone plant. These projects were at various stages of design and preliminary construction at year end but only a minor portion of the Company's estimated $27 million share of the total costs involved had been expended to that date. The Bigstone plant is scheduled for completion in mid-1968 but the other projects are not expected to be completed until late in the year or early in 1969. The additions to the Company's net production and sales volumes in 1969 resulting from completion of these five projects should total approximately 58 million cubic feet per day of natural gas, 7,700 barrels per day of natural gas liquids and 410 long tons per day of sulphur.

PIPE GALLERY AT LONE PINE CREEK GAS PLANT.

NET RESERVES December 31, 1967	Crude Oil	Natural Gas Liquids	Natural Gas	Sulphur
	(barrels)	(barrels)	(millions of cubic feet)	(long tons)
Proved	249,099,000	53,703,000	2,623,000	5,602,000
Probable	47,109,000	4,150,000	410,000	928,000
Total	296,208,000	57,853,000	3,033,000	6,530,000

Reserves – The successful exploration and development program carried out in 1967 resulted in large net additions to the Company's hydrocarbon reserves despite record volumes of withdrawals during the year. The Company's net remaining recoverable reserves at year end (after deducting all royalties and interests owned by others) as estimated by its reservoir engineering staff are shown in the accompanying table. The estimated proved reserves include only such reserves as can reasonably be classified as proved in accordance with widely accepted American Petroleum Institute standards. Probable reserves include reserves which are substantially proved on undrilled tracts closely associated with proved reserves and for which geological control is sufficient to offer good indication of continuity of the producing horizon. Natural gas liquids (condensate and liquefied petroleum gases) and sulphur reserves are not included unless the facilities required for their production are in existence or are assured of construction. Incremental reserves from enhanced recovery techniques are included in the probable category when the required facilities have been installed and are transferred to the proved category only after the anticipated performance from the facilities has been confirmed. Heavy oil in the Athabasca Tar Sands and Frenchman Butte areas has not been included.

EDSON GAS PLANT

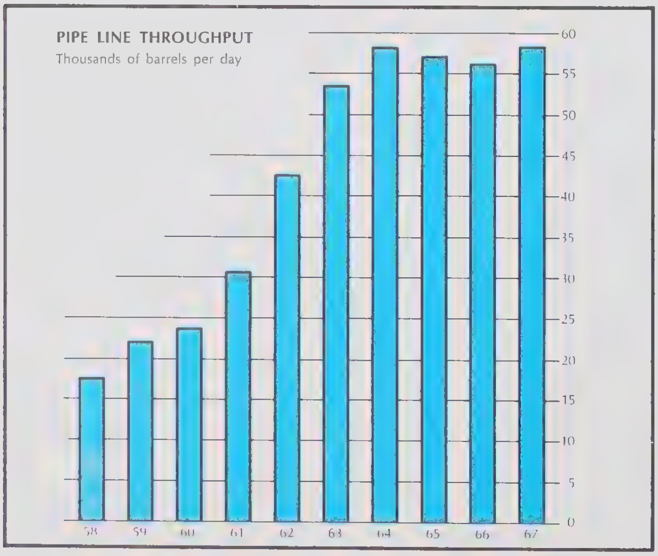
General Review / Supply and Transportation

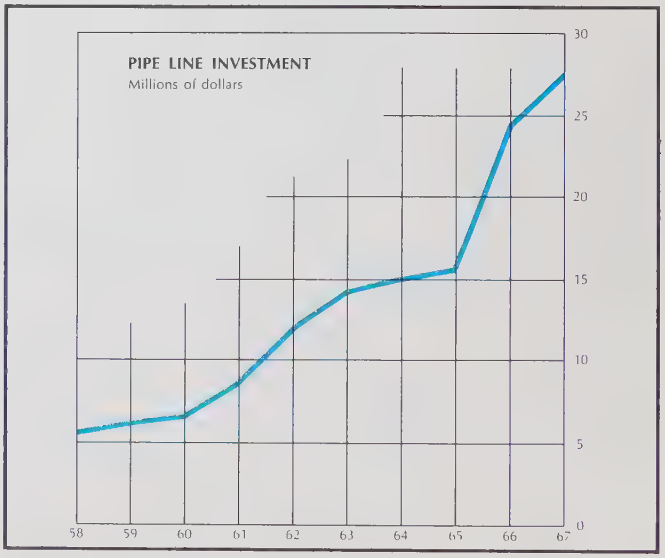

BULK STORAGE TANK AT RETAIL PROPANE LOCATION.

Pipe Lines – The volume of crude oil and natural gas liquids gathered and transported through the Company's pipe line systems averaged 58,817 barrels per day during 1967, an increase of 2,689 barrels per day or 4.8% over the previous year. Additional output from fields previously served by the gathering systems was the main factor in the gain but new production connected during the year also made a significant contribution. A new 191-mile 12-inch trunk line connecting the Company's system in central Alberta with its line from Pincher Creek to the United States border was placed in operation in January of 1967 and contributed substantially to the rise in pipe line revenue.

Expenditures for additions and extensions to the systems during the year totalled $3,152,000 and brought the Company's gross investment in pipe line properties to $27,364,000. At year end these properties comprised 420 miles of trunk line and 366 miles of gathering facilities. The major additions in the year were the looping of 29 miles of 12-inch trunk line between Pincher Creek and the United States border and the installation of pumping and control equipment to complete the 191-mile trunk line section that was constructed in 1966.

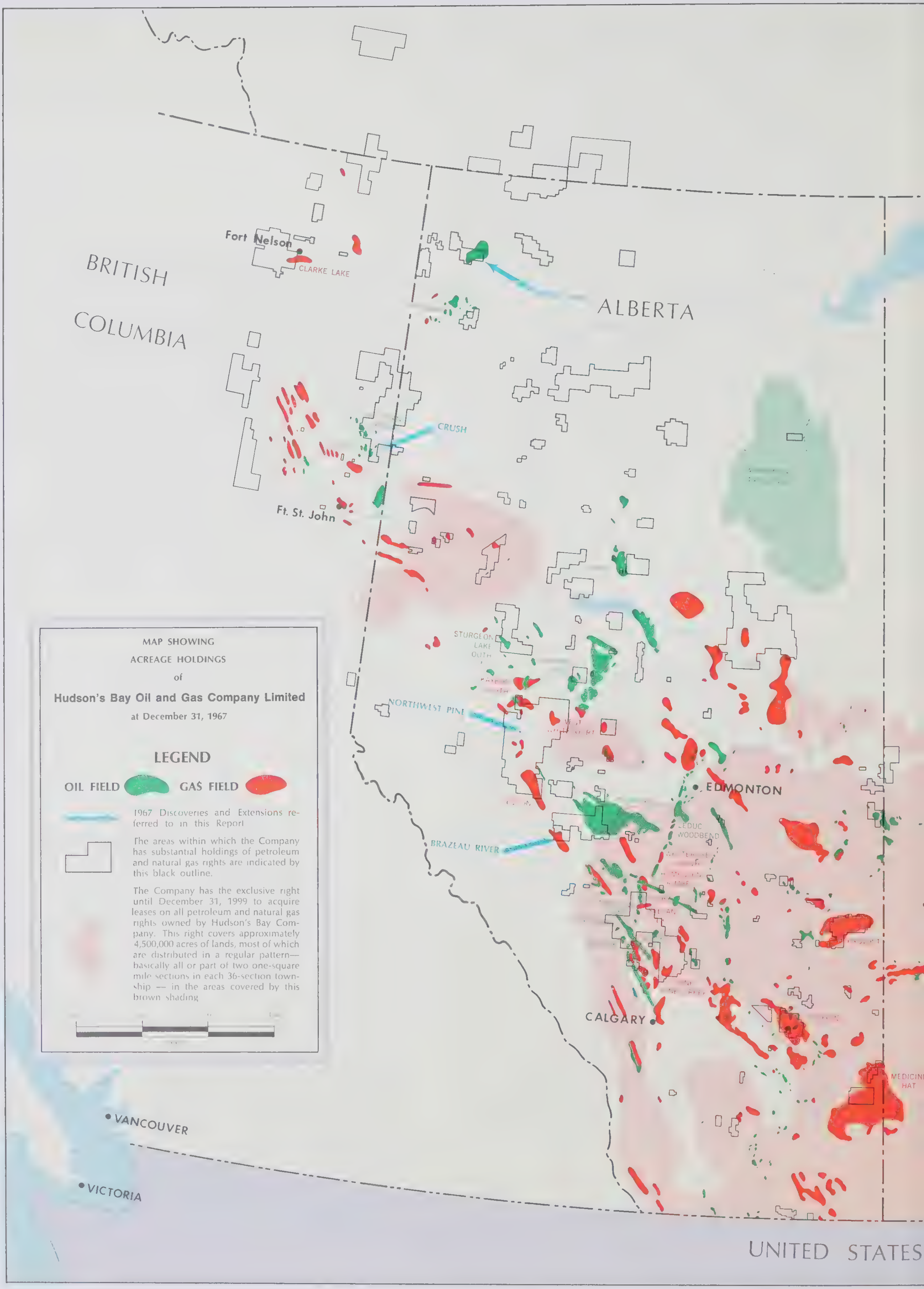
In addition to its own pipe line operations, the Company has a 13% interest in Peace River Oil Pipe Line Co. Ltd. and a 4% interest in Producers Pipelines Ltd. These companies operate crude oil gathering and trunk line systems in northwestern Alberta and southwestern Saskatchewan respectively and their ownership is spread among a number of companies who have oil production in the areas served by these systems. Peace River is currently constructing a 295-mile 20-inch trunk line extension to the Zama Lake area.





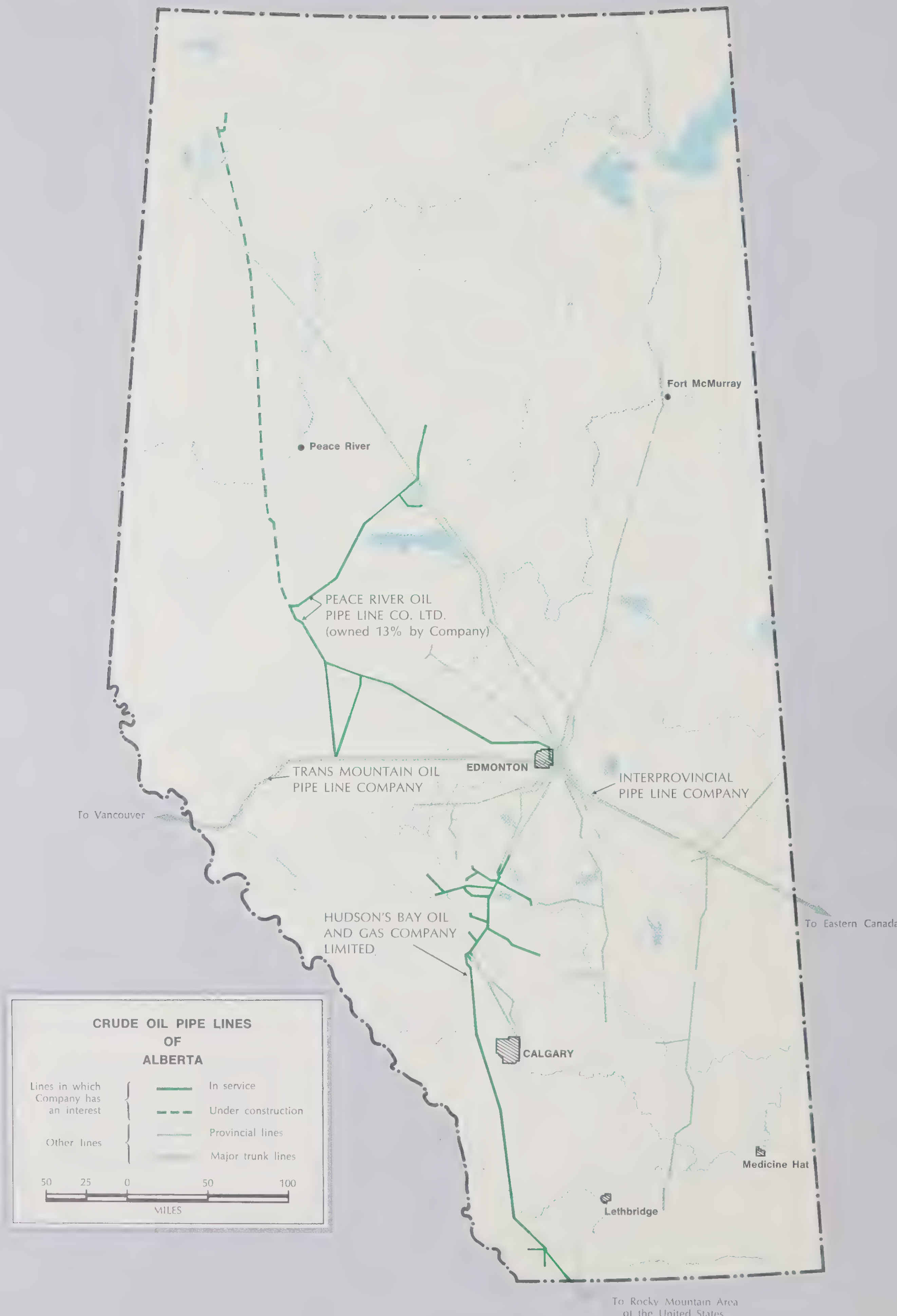
Gas Products – During 1967 the Company expanded its operations in the marketing and transportation of liquefied petroleum gases. New projects included the acquisition of three companies engaged in the retail distribution of propane and the construction of two butane storage terminals. The entire ownership interest was acquired in Blue Flame Propane Ltd., Allied Propane Ltd. and Economy Propane Ltd. which, as a group, have 12 branches covering the central part of Alberta. The butane storage terminals, at Sundre and Pincher Creek, provide the facilities required for movement of specification butane through the Company's trunk line system.

SPHERICAL BUTANE STORAGE TANK
UNDER CONSTRUCTION



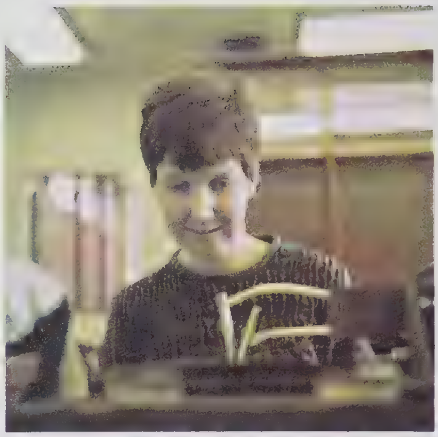
BRITISH
COLUMBIA
ALBERTA
Fort Nelson
CLARKE LAKE
Ft. St. John
CRUSH
STURGEON LAKE SOUTH
NORTHWEST PINE
BRAZEAU RIVER
EDMONTON
LEDUC WOODBEND
CALGARY
MEDICINE HAT
VANCOUVER
VICTORIA
UNITED STATES
MAP SHOWING
ACREAGE HOLDINGS
of
Hudson's Bay Oil and Gas Company Limited
at December 31, 1967
LEGEND
OIL FIELD
GAS FIELD
1967 Discoveries and Extensions referred to in this Report
The areas within which the Company has substantial holdings of petroleum and natural gas rights are indicated by this black outline.
The Company has the exclusive right until December 31, 1999 to acquire leases on all petroleum and natural gas rights owned by Hudson's Bay Company. This right covers approximately 4,500,000 acres of lands, most of which are distributed in a regular pattern—basically all or part of two one-square mile sections in each 36-section township — in the areas covered by this brown shading


QUEBEC
QUEBEC
Gulf of St. Lawrence
NEW
BRUNSWICK
FREDERICTON
MONCTON
CHARLOTTETOWN
SYDNEY
SAINT JOHN
MAINE
HALIFAX
MANITOBA
SASKATCHEWAN
SASKATOON
REGINA
WINNIPEG
CEYLON
HUMMINGBIRD
SOUTH HUMMINGBIRD
AMERICA


Fort McMurray
Peace River
PEACE RIVER OIL
PIPE LINE CO. LTD.
(owned 13% by Company)
EDMONTON
TRANS MOUNTAIN OIL
PIPE LINE COMPANY
To Vancouver
INTERPROVINCIAL
PIPE LINE COMPANY
To Eastern Canada
HUDSON'S BAY OIL
AND GAS COMPANY
LIMITED
CALGARY
Medicine Hat
Lethbridge
To Rocky Mountain Area
of the United States
CRUDE OIL PIPE LINES
OF
ALBERTA
Lines in which
Company has
an interest
In service
Under construction
Other lines
Provincial lines
Major trunk lines
50
25
0
50
100
MILES

At year end the Company and its subsidiaries had a total of 738 employees. Hudson's Bay Oil and Gas employees totalled 688, an increase of 75 from the previous year with most of the additions required for staffing new gas plants and expanded field operations. The three propane distribution companies acquired in 1967 had a total staff of 50 employees at year end.

On a consolidated reporting basis, the Company's total costs for salaries, wages and employee benefits were $6,130,000 in 1967, an increase of 16.8% over the prior year. This increase in costs resulted primarily from the growth in size of the work force and higher wages and salaries. A number of amendments were implemented during the year in the Company's benefit plans to improve and update the comprehensive coverage provided. The revisions included changes in the Comprehensive Medical Expense Plan providing for payment by the Company of a larger share of the premium costs and incorporating coverage for additional services; amendments to the Thrift Plan permitting employees to invest their funds in the new Series A convertible



preferred shares; and a number of technical revisions in the Retirement Plan to conform with the requirements of the new Alberta Pension Benefit Act.

The Company's manpower development program, designed to encourage and assist employees to achieve their full potential, was utilized extensively in 1967. Training was provided through conferences, seminars, and workshops conducted by consultants on an in-Company basis and by a variety of educational and professional institutions. In addition, a large number of the employees took advantage of the Employee Educational Refund Plan which reimburses them for 75% of the cost of successfully completed correspondence or night courses related to their career development.

Through continued emphasis on sound safety practices, an all-time low was recorded in 1967 in the frequency rates of personal injuries and automotive accidents. In recognition of this achievement, a number of government and industry awards were received.

FINANCIAL REVIEW

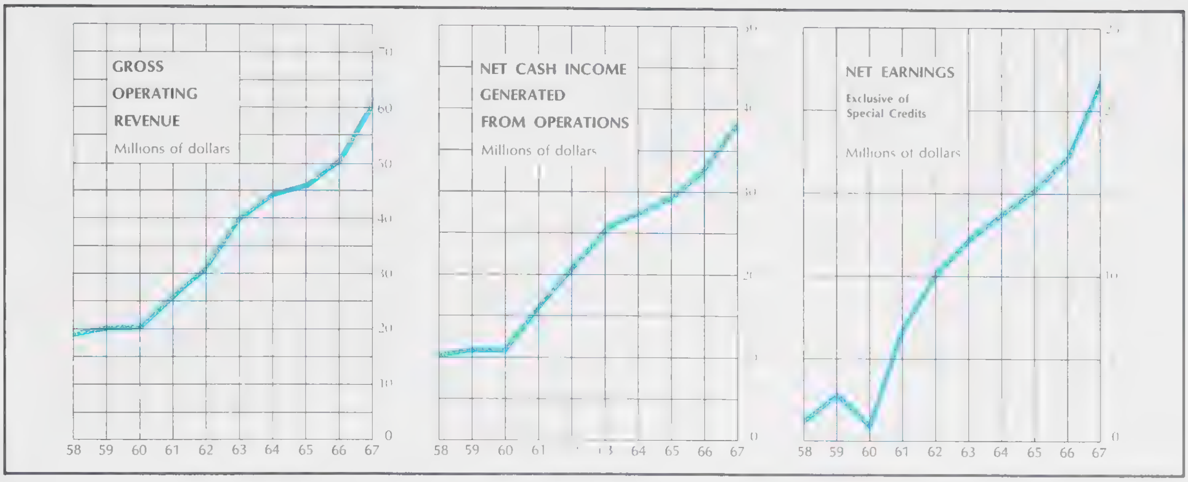
At a special general meeting of the shareholders held on September 7, approval was obtained to enlarge the Company's authorized capital by $75,000,000 through the creation of 1,500,000 preferred shares with a par value of $50 each. The Company then proceeded with the issue and sale of 600,000 Cumulative Redeemable Convertible Preferred Shares Series A with a total par value of $30,000,000. The immediate purpose of the issue was to assist in financing the large capital expenditure program planned for 1968, but it also accomplished the longer range objective of providing a broader equity capital base for future financing of prospective growth and expansion. The terms of the issue provide that each Series A preferred share is entitled to an annual dividend of $2.50 and is convertible, at the option of the holder, into one and one-fifth common shares until October 15, 1972. Thereafter the conversion option will be on a share for share basis and will extend to October 15, 1977 unless the Series A preferred shares have been called for redemption prior to that date. The issue was underwritten by a large group of investment dealers and offered for public subscription in Canada at a price of $51 per share to yield 4.90%. Delivery of the shares was made on October 16 and the net proceeds received by the Company, after payment of the underwriting commissions and other issue costs, totalled $29,468,000. The Series A preferred shares were called for trading on the Toronto Stock Exchange on October 18 and subsequently have moved up to a substantial premium over the issue price.

Late in 1966 the Company had arranged for the sale of $10,000,000 7% First Mortgage Sinking Fund Bonds Series E, maturing January 3, 1987, and this transaction was finalized in 1967 by the issue and delivery of these bonds on January 3. Despite this new issue, however, the net increase for the year in long-term debt was only $3,090,000 due to offsetting reductions in outstanding issues through repayments and transfers of installments due within one year into current liabilities. At year end outstanding long-term debt totalled $69,743,000 and, as a result of the large addition to equity capital during the year, represented only 30.3% of total capital employed as compared with 36.0% at the previous year end.

Consolidated net earnings for the year totalled $22,139,000, a 27.4% increase over the previous record of $17,371,000 earned in 1966. After deducting preferred dividends for the final quarter of the year, earnings per common share rose 25.3% to $1.19 as compared with 95 cents per share for 1966 when no preferred shares were outstanding. Net cash income generated from operations reached $38,277,000, a 16.7% increase over the $32,813,000 generated in the previous year and, after provision for preferred dividends, amounted to $2.07 per common share as compared with $1.79 per common share in 1966.

The first quarterly dividend of 62.5 cents per share on the new Series A preferred issue was declared in December and paid on January 15, 1968 to all shareholders of record at the close of business on December 27, 1967. In view of the improved earnings and cash flow for the year, the annual dividend on the common shares was increased by 10 cents to 50 cents per share. This dividend was paid on January 22, 1968 to all common shareholders of record at the close of business on December 27, 1967.

Gross operating revenues for the year totalled $61,688,000, a gain of $9,206,000 or 17.5%. The major sources of operating revenues and a comparison with the prior year are shown in the accompanying table. Approximately 90% of the gain in sulphur revenues resulted from higher prices but the gains achieved in each of the other revenue categories were almost entirely attributable to a larger volume of sales or operations. Revenues from interest, rentals and other miscellaneous sources totalled $1,667,000, more than double the amount



earned in the previous year due primarily to the additional interest revenues from larger holdings of short term investments.

Total expenses for the year were $41,216,000, an increase of $5,323,000 or 14.8%. Cash expenses were up $4,627,000 or 22.6% principally due to the additional costs associated with larger production volumes, an increase in geophysical expenditures, and additional interest charges on the larger amount of borrowed capital outstanding during the year. Non-cash expenses increased by only $696,000 or 4.5% with larger provisions for depreciation and depletion being partially offset by a modest reduction in dry hole charges and larger credits arising from bond retirements at less than their original issue price.

The Company's position with respect to income taxes is set forth in Note 4 to the financial statements. As explained therein the Company and its subsidiaries were able to offset earnings for the year against excess tax-deductible expenses carried forward from prior years. At year end the aggregate of such excess expenses carried forward was approximately $13,500,000 after an estimated reduction of $9,500,000 in 1967. The rate of use of these carry-forwards can vary substantially from year to year as it is dependent not only on the amount by which revenues exceed operating expenses but also on the amount of capital expenditures in the year that qualify as current deductions for tax purposes.

Capital expenditures in 1967, at $34,316,000, were $2,099,000 or 6.5% larger than in the previous year. Expenditures on exploratory and development drilling and for lease and well equipment totalled $21,153,000, an increase of $6,389,000, and outlays for plants and related facilities, at $6,049,000, were $1,261,000 higher. However, these increases were partially offset by a decline of $3,451,000 in spending for pipe line and product distribution facilities and a reduction of $2,282,000 in expenditures for acquisition of acreage.

The impact on the Company's working capital position of this higher level of capital spending and the larger dividends declared for the year was largely offset by the greater amount of net cash income generated from operations. Consequently most of the additional capital obtained through financing transactions in 1967 was retained in current assets and resulted in a $27,637,000 increase in net working capital as shown in the statement of Sources and Uses of Funds on page 29.

GROSS OPERATING REVENUES

Category	Amount in 1967	Percentage of Total	Amount in 1966	Percentage of Total	Increase over 1966 Amount	Increase over 1966 Per Cent
Crude Oil	$34,848,000	56.5	$31,358,000	59.7	$3,490,000	11.1
Natural Gas Liquids	6,314,000	10.2	5,826,000	11.1	488,000	8.4
Natural Gas	10,483,000	17.0	9,009,000	17.2	1,474,000	16.4
Sulphur	3,641,000	5.9	1,527,000	2.9	2,114,000	138.4
Processing Non-owned Gas	1,389,000	2.3	1,197,000	2.3	192,000	16.0
Pipe Line and Product Distribution	5,013,000	8.1	3,565,000	6.8	1,448,000	40.6
Total	$61,688,000	100.0%	$52,482,000	100.0%	$9,206,000	17.5%

Consolidated Balance Sheet / December 31, 1967 and 1966 / Huds

Assets

	1967	1966
CURRENT ASSETS		
Cash	$ 903,000	$ 948,000
Short-term investments at cost, which approximates market	37,613,000	5,500,000
Accounts receivable (Note 5)	14,819,000	14,110,000
Inventories of crude oil, products and supplies at or below average cost	2,526,000	2,378,000
Total Current Assets	55,861,000	22,936,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2)		
At cost	294,583,000	265,951,000
Less: Accumulated depreciation, depletion and amortization	96,318,000	84,726,000
	198,265,000	181,225,000
OTHER ASSETS		
Investments in non-controlled companies at cost	1,019,000	1,107,000
Unamortized bond discount and expense	463,000	409,000
Unamortized goodwill	343,000	–
Deposits, deferred charges and miscellaneous assets at cost	2,222,000	1,940,000
	4,047,000	3,456,000
	$258,173,000	$207,617,000

Approved on behalf of the Board:

L. J. Richards, DIRECTOR

D. G. Jones, DIRECTOR

Liabilities and Shareholders' Equity

	1967	1966
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	$ 12,872,000	$ 11,788,000
Dividends payable (Note 5)	9,522,000	7,318,000
Long-term debt due within one year (Note 6)	4,100,000	2,100,000
Total Current Liabilities	26,494,000	21,206,000
LONG-TERM DEBT (Note 6)		
First mortgage sinking fund bonds	55,743,000	48,653,000
Term loan	14,000,000	18,000,000
	69,743,000	66,653,000
DEFERRED CREDIT RE OFFICE BUILDING (Note 7)	1,551,000	1,458,000
SHAREHOLDERS' EQUITY (Note 8)		
Capital stock		
Authorized		
Preferred – $50 par value – 1,500,000 shares		
Common – $2.50 par value – 25,000,000 shares		
Issued and outstanding		
5% Cumulative redeemable convertible preferred shares series A – 600,000 shares	30,000,000	–
Common – 18,294,044 shares	45,735,000	45,735,000
Contributed surplus	21,095,000	21,627,000
Retained earnings	63,555,000	50,938,000
	160,385,000	118,300,000
	$258,173,000	$207,617,000

Contingency (Note 9)

See accompanying notes

Consolidated Statement of Earnings

Years ended December 31, 1967 and 1966

	1967	1966
REVENUES		
Gross operating revenues	$61,688,000	$52,482,000
Interest, dividends, rentals and other	1,667,000	782,000
	63,355,000	53,264,000
CASH EXPENSES		
Exploration	7,436,000	6,176,000
Production	10,134,000	8,501,000
Pipe line and product distribution	1,415,000	923,000
General administrative (Note 3)	1,821,000	1,608,000
Interest on long-term debt	4,243,000	3,002,000
Other interest charges	29,000	241,000
	25,078,000	20,451,000
NET CASH INCOME GENERATED FROM OPERATIONS	38,277,000	32,813,000
NON-CASH EXPENSES		
Depletion	5,221,000	4,895,000
Depreciation	5,788,000	5,125,000
Amortization of undeveloped acreage	1,696,000	1,600,000
Dry holes and abandonments	3,706,000	3,810,000
Other items – net	(273,000)	12,000
	16,138,000	15,442,000
NET EARNINGS (Notes 1 and 4)	$22,139,000	$17,371,000

Consolidated Statement of Retained Earnings

Years ended December 31, 1967 and 1966

	1967	1966
Retained Earnings – January 1	$50,938,000	$40,885,000
Net Earnings for Year	22,139,000	17,371,000
	73,077,000	58,256,000
Dividends Declared		
Preferred shares	375,000	–
Common shares	9,147,000	7,318,000
	9,522,000	7,318,000
Retained Earnings – December 31	$63,555,000	$50,938,000

See accompanying notes

Consolidated Statement of Sources and Uses of Funds

Years ended December 31, 1967 and 1966

	1967	1966
SOURCES OF FUNDS		
Net cash income generated from operations	$38,277,000	$32,813,000
Preferred stock	30,600,000	–
First mortgage sinking fund bonds	10,000,000	–
Term loan	–	14,500,000
Proceeds from sale of properties and investments	1,121,000	953,000
TOTAL FUNDS AVAILABLE	$79,998,000	$48,266,000
USES OF FUNDS		
Expenditures for property, plant and equipment	$34,316,000	$32,217,000
Reduction of long-term debt	6,910,000	3,147,000
Dividends declared	9,522,000	7,318,000
Miscellaneous – net	1,613,000	398,000
TOTAL FUNDS USED	$52,361,000	$43,080,000
RESULTING INCREASE (DECREASE)		
In cash and short-term investments	$32,068,000	$ 5,627,000
In other working capital items	(4,431,000)	(441,000)
IN TOTAL WORKING CAPITAL	$27,637,000	$ 5,186,000

See accompanying notes

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Hudson's Bay Oil and Gas Company Limited and subsidiary companies as of December 31, 1967 and the consolidated statements of earnings, retained earnings and sources and uses of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company and subsidiary companies at December 31, 1967 and the results of their operations and the sources and uses of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Calgary, Alberta
February 2, 1968

Notes to the Consolidated Financial Statements

(1) ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of Hudson's Bay Oil and Gas Company Limited and its subsidiary companies, each of which is wholly owned. The consolidated net earnings include the results of subsidiary companies from their respective dates of acquisition and where the purchase price of shares of subsidiaries exceeded their net book values the excess has been allocated to the related assets and additional depreciation, depletion and amortization has been provided accordingly.

Exploration expenses are charged against earnings as incurred.

All acreage costs are capitalized when acquired. A regular charge is made to earnings for amortization of undeveloped acreage and when undeveloped acreage is surrendered the cost is charged against the accumulated amortization. When acreage is proven to be productive the original cost is transferred to the developed acreage account and written off by a depletion charge calculated on the unit of production method.

All costs of drilling wells are initially capitalized. If, on completion, a well is not capable of commercial production its cost is immediately written off. The costs of successful wells, other than equipment costs, are written off by depletion charges on the unit of production method in the same manner as the cost of developed acreage.

Plant, pipe line and equipment costs are depreciated on the straight line method at rates estimated to write off the costs over the useful lives of the assets, except that certain pipe line assets are depreciated on the unit of throughput method. In January 1967 a trunk line connecting the Company's two existing pipe line systems was brought into operation and at that time the method of depreciating a substantial portion of the investment in pipe line assets was changed from unit of throughput to straight line. The effect of this change on 1967 net earnings was not significant.

(2) PROPERTY, PLANT AND EQUIPMENT:

	Assets at Cost	Accumulated Depreciation	Accumulated Depletion	Accumulated Amortization	Net
Undeveloped acreage	$ 28,808,000	$ –	$ –	$3,466,000	$ 25,342,000
Fully or partially developed acreage	31,554,000	–	9,429,000	–	22,125,000
Oil and gas rights on Hudson's Bay Company lands	1,000	–	–	–	1,000
Wells and related facilities	165,332,000	23,919,000	47,190,000	–	94,223,000
Plants and related facilities	37,724,000	5,932,000	–	–	31,792,000
Pipe line and product distribution facilities	29,380,000	5,556,000	–	–	23,824,000
Other	1,784,000	826,000	–	–	958,000
Total – December 31, 1967	$294,583,000	$36,233,000	$56,619,000	$3,466,000	$198,265,000
Total – December 31, 1966	$265,951,000	$30,884,000	$51,474,000	$2,368,000	$181,225,000

Pursuant to an agreement the Company has an exclusive right until December 31, 1999, to lease any or all of the petroleum and natural gas rights owned by Hudson's Bay Company. The exercise of this right requires no bonus payment. The Hudson's Bay Company lands subject to this agreement totalled 4,545,000 acres at December 31, 1967, primarily in the Provinces of Alberta, Saskatchewan and Manitoba. A nominal value of $1,000 has been assigned to these rights.

(3) AMOUNTS PAID TO DIRECTORS:

The aggregate direct remuneration paid to directors and senior officers by the Company and its subsidiaries was $289,000.

(4) INCOME TAXES:

Under the provisions of the Income Tax Act and Regulations, the Company and each of its subsidiaries is permitted to deduct currently exploration expenses, acreage costs and the costs of drilling both successful and unsuccessful wells and to carry forward any excess of such deductions over income. They are also allowed for income tax purposes to deduct capital cost allowances greater than the depreciation recorded in their accounts. As a result of using these provisions, no income taxes were payable by any of the companies in respect of 1967 operations (except for approximately $700 by one small subsidiary) and, at December 31, 1967, the companies had accumulations of unused deductions totalling approximately $13,500,000 to apply against their taxable incomes of future years. The comparable accumulations at December 31, 1966 totalled approximately $23,000,000.

Since the Company accounts for income taxes on the "taxes payable" basis no provision for income taxes is required in the accompanying financial statements, except as noted above. If the Company had followed the "deferred tax" accounting concept, provisions for deferred taxes estimated at $7,623,000 for 1967 and $6,055,000 for 1966 would have been required and the cumulative amount of deferred taxes at December 31, 1967 would have been $36,308,000.

(5) AMOUNTS OWING TO AND FROM AFFILIATED COMPANIES:

Accounts receivable and accounts payable include $2,652,000 and $104,000 respectively resulting from transactions in the normal course of business with Continental Oil Company and its subsidiaries. Dividends payable include $6,013,000 due to Continental Oil Company.

(6) LONG-TERM DEBT:

First Mortgage Sinking Fund Bonds	Amount Outstanding After Deducting Sinking Fund Credits — Due Within One Year	Long-Term Portion
4% Series A, due May 1, 1975 – remaining sinking fund requirements $858,000 in 1969, $1,000,000 per annum – 1970 to 1974 and $10,000,000 at maturity	$ –	$15,858,000
5% Series B, due October 1, 1971 – remaining sinking fund requirements $100,000 per annum in 1968 and 1969 and $50,000 per annum in 1970 and 1971	100,000	200,000
5¾% Series C, due August 1, 1977 – remaining sinking fund requirements $160,000 per annum 1969 to 1976 and $100,000 at maturity	–	1,380,000
5½% Series D, due June 15, 1983 – remaining sinking fund requirements $1,305,000 in 1969, $1,500,000 per annum 1970 to 1982 and $7,500,000 at maturity	–	28,305,000
7% Series E, due January 3, 1987 – sinking fund requirements $500,000 per annum 1971 and 1972, $600,000 per annum 1973 to 1987	–	10,000,000
Total – December 31, 1967	$100,000	$55,743,000
Total – December 31, 1966	$100,000	$48,653,000

Sinking fund credits, established through the purchase and surrender to the trustee of bonds, have been treated as a reduction of the next succeeding sinking fund requirements for the respective series. The First Mortgage Sinking Fund Bonds are secured under a Deed of Trust and Mortgage by a first fixed and specific mortgage and charge on certain petroleum and natural gas rights and by a first floating charge on all other property and assets of the Company, both present and future.

The term loan of $18,000,000 outstanding at December 31, 1967 (which includes $4,000,000 due within one year and included in Current Liabilities) is secured under Section 82 of the Bank Act (Canada) by an assignment of the Company's interest in hydrocarbon reserves underlying certain properties other than those specifically pledged under the Company's Deed of Trust and Mortgage securing its First Mortgage Sinking Fund Bonds. Interest is payable monthly at the prime bank rate for such loans. The principal outstanding is repayable in 18 quarterly installments of $1,000,000 each with the final payment due April 1, 1972.

(7) DEFERRED CREDIT RE OFFICE BUILDING:

On December 1, 1959 the Company sold its Calgary office building for $4,380,000 and simultaneously leased the property for an initial term of 25 years at annual net rentals of 3½% ($153,000) of the selling price. Under the terms of the lease, the Company has an option, exercisable within eight months following the death of the lessor, to repurchase the property at the original selling price and cancel the lease, or to retain the lease at annual net rentals of 6¾% ($296,000) of the original selling price. The excess of the selling price over the depreciated value of the property at the date of sale and a charge in lieu of depreciation since that date have been recorded in the accounts as a deferred credit. The balance in this account will be credited to accumulated depreciation if the building is repurchased and otherwise will be credited against future rentals.

(8) CAPITAL STOCK:

By Supplementary Letters Patent dated September 12, 1967 the authorized 25,000,000 shares of capital stock of the Company with a par value of $2.50 each were redesignated as 25,000,000 Common Shares with par value of $2.50 each and the authorized capital was increased by the creation of 1,500,000 Preferred Shares with the par value of $50 each issuable in one or more series.

On October 16, 1967 the Company issued 600,000 5% Cumulative Redeemable Convertible Preferred Shares Series A. These shares were sold for a total consideration of $30,600,000 of which $30,000,000 was credited to share capital and $600,000 to Contributed Surplus. The underwriting commission of $1,050,000 and other issue expenses of $82,000 applicable thereto were charged to Contributed Surplus.

The Preferred Shares Series A are redeemable at the option of the Company from October 15, 1972 through October 14, 1977 at $53.50 and thereafter at $51.00. At the option of the holder each Preferred Share Series A may be converted into one and one-fifth Common Shares at any time on or before October 15, 1972 or thereafter may be converted into one Common Share on or before October 15, 1977 or such earlier date as may result from notice of redemption of the shares.

At December 31, 1967 there were 720,000 Common Shares reserved for issue upon exercise of the rights of conversion attaching to the Preferred Shares Series A, being the maximum number of Common Shares that would be issued if all the Preferred Shares Series A were converted during the first conversion period.

(9) CONTINGENCY:

The Company has issued to and deposited with governmental authorities an aggregate of $1,154,000 of non-interest bearing demand notes to be held as security for the performance of work obligations in respect of certain exploratory rights.

In a certain future circumstance the Company would be obliged to purchase up to $4,646,000 of bonds of a pipe line company in which it has a share ownership. Currently no definitive assessment can be made as to the possible occurrence of this circumstance.

Ten Year Operating Review

	1967	1966
LIQUID HYDROCARBONS PRODUCTION – NET (Barrels per day)		
Crude Oil		
Alberta	29,386	25,856
British Columbia	5,693	5,247
Saskatchewan	5,259	4,826
Manitoba	16	14
TOTAL CRUDE OIL	40,354	35,943
Natural Gas Liquids (virtually all from Alberta)	6,940	6,513
TOTAL CRUDE OIL and NATURAL GAS LIQUIDS	47,294	42,456
NATURAL GAS SALES – NET (Millions of cubic feet per day)	196.7	169.5
SULPHUR SALES – NET (Long tons per day)	433	386
PIPE LINE		
Throughput (Barrels per day)	58,812	56,123
Miles of Trunk Line	420	391
Miles of Gathering Facilities	366	334
WELL DATA		
NET DEVELOPMENT WELLS COMPLETED		
Oil	30.0	34.8
Gas	17.1	9.8
Dry	8.8	12.1
TOTAL	55.9	56.7
NET EXPLORATORY WELLS COMPLETED		
Oil	19.9	9.5
Gas	8.0	9.0
Dry	33.3	40.0
TOTAL	61.2	58.5
TOTAL GROSS WELLS COMPLETED	203	222
NET WELLS CAPABLE OF PRODUCTION		
Oil Wells	992.2	957.1
Gas Wells	189.7	166.8
TOTAL	1,181.9	1,123.9
NET ACREAGE HOLDINGS (Thousands of acres)		
Undeveloped Acreage		
Alberta	5,520	6,434
Saskatchewan	4,996	5,196
British Columbia	980	1,025
Yukon and N.W.T.	2,293	2,033
Maritime Provinces	4,583	9,167
Manitoba	789	789
TOTAL UNDEVELOPED ACREAGE	19,161	24,644
Fully or Partially Developed Acreage	405	383
TOTAL NET ACREAGE	19,566	25,027

1965	1964	1963	1962	1961	1960	1959	1958
25,456	26,389	25,057	22,167	22,521	19,525	18,961	17,953
3,083	2,220	2,216	1,354	178	10	51	15
4,582	4,294	3,799	3,265	2,668	2,386	2,026	2,117
13	10	10	4	5	8	9	14
33,134	32,913	31,082	26,790	25,372	21,929	21,047	20,099
5,756	5,223	4,604	3,564	1,450	760	207	–
38,890	38,136	35,686	30,354	26,822	22,689	21,254	20,099
138.2	116.6	104.6	82.1	60.1	43.6	44.2	13.8
343	245	237	132	5	–	–	–
57,502	58,817	53,724	42,678	30,759	23,597	22,062	17,719
200	200	200	187	117	78	78	75
314	297	266	211	166	114	107	99
38.4	60.2	66.3	65.1	52.7	47.9	62.9	55.8
10.3	8.0	8.7	7.1	2.7	7.1	6.4	9.3
11.0	9.8	14.9	13.8	5.2	4.8	5.1	6.8
59.7	78.0	89.9	86.0	60.6	59.8	74.4	71.9
7.2	5.0	5.4	2.8	3.5	3.0	3.5	2.0
4.2	7.7	8.1	2.3	5.2	4.0	1.5	5.3
28.9	28.9	22.1	16.8	9.6	14.3	21.9	23.0
40.3	41.6	35.6	21.9	18.3	21.3	26.9	30.3
195	225	249	164	126	140	185	192
919.7	917.2	877.0	754.6	698.6	646.6	605.8	552.9
152.7	136.2	125.3	97.4	88.0	80.0	71.2	67.1
1,072.4	1,053.4	1,002.3	852.0	786.6	726.6	677.0	620.0
6,699	5,745	5,601	4,367	4,267	3,986	4,229	4,577
3,931	2,960	2,980	2,655	2,584	2,628	2,736	2,537
1,203	1,161	1,952	2,000	2,379	4,102	2,830	2,161
1,871	1,027	1,461	1,697	1,717	2,012	901	38
9,167	–	–	–	–	–	–	–
789	792	792	703	703	703	711	709
23,660	11,685	12,786	11,422	11,650	13,431	11,407	10,022
356	347	321	274	242	164	135	125
24,016	12,032	13,107	11,696	11,892	13,595	11,542	10,147

Ten Year Financial Review (1)

		1967	1966
GROSS OPERATING REVENUES			
Crude Oil	$	34,848	31,358
Natural Gas Liquids	$	6,314	5,826
Natural Gas	$	10,483	9,009
Sulphur	$	3,641	1,527
Processing Non-owned Gas	$	1,389	1,197
Pipe Line and Product Distribution	$	5,013	3,565
TOTAL	$	61,688	52,482
EARNINGS AND DIVIDENDS			
Net Earnings (2)			
Total	$	22,139	17,371
Per Common Share (after preferred dividends)	$	1.19	.95
Net Cash Income Generated from Operations			
Total	$	38,277	32,813
Per Common Share (after preferred dividends)	$	2.07	1.79
Preferred Dividends Declared	$	375	–
Common Dividends Declared	$	9,147	7,318
TOTAL DIVIDENDS DECLARED	$	9,522	7,318
Per Common Share	$	.50	.40
CAPITALIZATION			
Long-Term Debt	$	69,743	66,653
Shareholders' Equity	$	160,385	118,300
TOTAL CAPITAL EMPLOYED	$	230,128	184,953
Shareholders' Equity as % of Total Capital Employed		69.7%	64.0%
Number of Preferred Shares Outstanding		600,000	–
Number of Common Shares Outstanding		18,294,044	8,294,044
CAPITAL AND EXPLORATION EXPENDITURES			
Exploration Expenses			
Geological, Geophysical and Other Exploration Expenses	$	5,156	3,319
Lease Rentals	$	2,280	2,857
Acreage Acquisitions	$	1,493	3,775
Exploratory Drilling	$	8,053	5,873
Development Drilling and Production Facilities	$	13,100	8,891
Plants and Related Facilities	$	6,049	4,788
TOTAL FINDING AND DEVELOPING EXPENDITURES	$	36,131	29,503
Pipe Line and Product Distribution Facilities	$	5,085	8,536
Other	$	536	354
TOTAL CAPITAL AND EXPLORATION EXPENDITURES	$	41,752	38,393
EMPLOYEES AND SHAREHOLDERS			
Number of Preferred Shareholders		3,312	–
Number of Common Shareholders		9,254	9,859
Number of Employees		738	613

(1) With the exception of per share figures, dollar amounts are in thousands.
(2) Exclusive of special credits of $856,000 in 1962, $265,000 in 1960, $943,000 in 1959 and $2,472,000 in 1958.
(3) Includes $27,866,000 acquisition costs of Consolidated Mic Mac Oils Ltd. and Security Freehold Petroleums Limited.

	1965	1964	1963	1962	1961	1960	1959	1958
	28,867	28,879	27,112	22,987	20,887	17,720	17,351	17,619
	5,196	4,709	4,312	3,234	1,097	588	76	–
	7,339	5,954	5,218	3,895	2,478	1,741	1,735	408
	1,428	430	411	241	30	–	–	–
	820	593	666	414	211	131	91	–
	3,567	3,677	3,305	2,825	2,236	1,841	1,721	1,368
	47,217	44,242	41,024	33,596	26,939	22,021	20,974	19,395
	15,355	13,803	12,331	10,166	7,006	1,004	2,821	1,316
	.84	.75	.67	.57	.39	.06	.16	.07
	29,444	27,372	25,760	21,106	16,440	11,089	11,081	10,493
	1.61	1.50	1.41	1.19	.93	.62	.62	.59
	–	–	–	–	–	–	–	–
	7,318	6,403	5,488	5,324	3,549	–	–	–
	7,318	6,403	5,488	5,324	3,549	–	–	–
	.40	.35	.30	.30	.20	–	–	–
	55,300	51,000	52,570	23,539	25,018	26,400	26,500	27,600
	108,247	100,210	92,810	77,479	71,781	68,324	67,055	63,291
	163,547	151,210	145,380	101,018	96,799	94,724	93,555	90,891
	66.2%	66.3%	63.8%	76.7%	74.2%	72.1%	71.7%	69.6%
	–	–	–	–	–	–	–	–
	18,294,044	18,294,044	18,294,044	17,744,592	17,744,592	17,744,592	17,744,592	17,744,592
	2,720	2,570	2,269	2,535	1,841	2,251	1,678	1,664
	2,908	2,224	2,191	2,027	2,032	2,169	2,346	2,362
	7,847	3,037	28,534	4,320	2,138	3,344	2,297	1,126
	4,535	4,191	4,663	3,224	2,105	2,791	1,945	3,670
	7,618	10,433	12,396	8,287	7,704	9,424	8,464	6,879
	5,861	5,350	2,812	1,899	6,849	1,175	1,119	2,212
	31,489	27,805	52,865(3)	22,292	22,669	21,154	17,849	17,913
	847	812	2,341	3,315	2,426	242	743	731
	362	358	161	245	131	307	111	227
	32,698	28,975	55,367	25,852	25,226	21,703	18,703	18,871
	–	–	–	–	–	–	–	–
	10,674	11,548	12,526	11,038	11,485	11,956	12,171	12,738
	574	506	475	454	425	407	412	396

Hudson's Bay Oil and Gas Company Limited

Incorporated under the Laws of the Dominion of Canada

BOARD OF DIRECTORS

A. W. TARKINGTON, Chairman, New York, President and a Director of Continental Oil Company

J. R. MURRAY, Vice-Chairman, Winnipeg, Managing Director of Hudson's Bay Company

T. N. BEAUPRÉ, Montreal, Chairman of the Board of Directors of Domtar Limited, and a Director of Hudson's Bay Company

M. J. FOLEY, Quebec, Vice-President and a Director of Anglo-Canadian Pulp and Paper Mills, Limited

W. E. GLENN, Houston, Executive Vice-President and a Director of Continental Oil Company

D. C. JONES, Calgary, Executive Vice-President of the Company

D. E. KILGOUR, Winnipeg, President and a Director of The Great-West Life Assurance Company, and a Director of Hudson's Bay Company

HERBERT H. LANK, Montreal, Chairman of the Board of Directors of DuPont of Canada Limited

L. J. RICHARDS, Calgary, President of the Company

J. S. ROYDS, New York, Senior Vice-President of Continental Oil Company
(Appointed February 20, 1968 to fill vacancy created by resignation of G. T. Pearson)

MANAGEMENT

L. J. RICHARDS, President
D. C. JONES, Executive Vice-President
K. H. BURGIS, Financial Vice-President
R. J. HAMILTON, Vice-President, Exploration
S. G. OLSON, Vice-President, Production
R. F. HASKAYNE, Controller
F. J. MAIR, Treasurer
W. E. SELBY, Secretary

L. J. RICHARDS

D. C. JONES

K. H. BURGIS

HEAD OFFICE

320 Seventh Avenue South West, Calgary, Alberta

SUBSIDIARY COMPANIES (all wholly-owned)

ALLIED PROPANE LTD., incorporated under the Laws of the Province of Alberta

AURORA PIPE LINE COMPANY, incorporated by Special Act of the Parliament of Canada

BLUE FLAME PROPANE LTD., incorporated under the Laws of the Province of Alberta

ECONOMY PROPANE LTD., incorporated under the Laws of the Province of Alberta

MIC MAC OILS (1963) LTD., incorporated under the Laws of the Province of Alberta

RANGELAND PIPE LINE COMPANY LIMITED, incorporated under the Laws of the Province of Alberta

SECURITY FREEHOLD PETROLEUMS LIMITED, incorporated under the Laws of the Dominion of Canada

TRANSFER AGENTS

Preferred Shares

MONTREAL TRUST COMPANY, Calgary, Montreal, Toronto, Vancouver and Winnipeg

Common Shares

MONTREAL TRUST COMPANY, Calgary, Montreal, Toronto, Vancouver and Winnipeg

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, New York

STOCK EXCHANGE LISTING

Preferred and Common Shares

TORONTO STOCK EXCHANGE

AUDITORS

PEAT, MARWICK, MITCHELL & CO., Calgary

R. J. HAMILTON

F. J. MAIR

R. F. HASKAYNE

S. G. OLSON

W. E. SELBY

Hudson's Bay Oil and Gas Company Limited 1967 Annual Report

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